



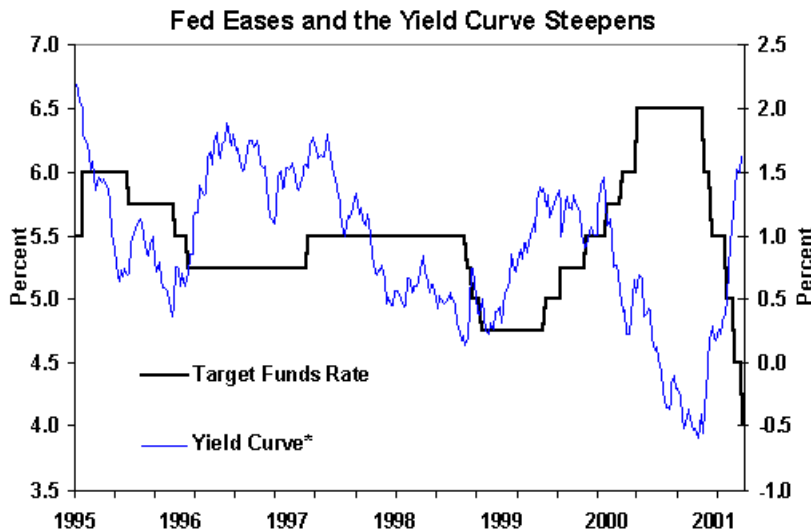
Weekly Economic Digest



Joint Economic Committee—Democratic Staff
Senator Jack Reed (RI)—Ranking Member

May 22, 2001

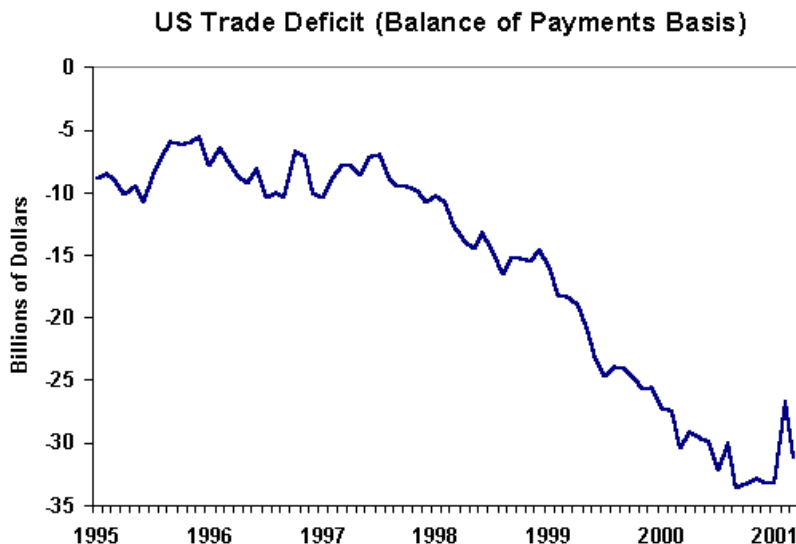
Federal Reserve Lowers Rates Again



*Difference between yields on 10-year Treasury notes and 3-month Treasury bills.
Source: Federal Reserve Board

For the second time in a month, the Federal Reserve lowered its target for the federal funds rate by half a percentage point. At 4 percent, the target funds rate is now 2½ percentage points below its level at the start of the year. The Fed has not cut the target funds rate at this pace and to this degree since the last recession, when it cut the target rate to 3 percent.

Long-term rates have remained stubbornly high. Since the start of the year, the yields on 10-year Treasury notes have risen slightly while short-term rates have fallen roughly in line with the Fed's cuts. Businesses use long-term interest rates in constructing their capital expenditure plans. Accordingly, the Fed's cuts have not yet encouraged declines in long-term rates that are needed to stimulate business investment.



Source: US Department of Commerce

Consumer prices posted a modest increase in April, underscoring the Fed's apparent assessment that the risk of rising inflation is small. Adjusted to remove the effects of food and energy prices from overall inflation, the core consumer price index rose 0.2 percent in April.

The nation's trade deficit widened in March. Reversing its improvement in February, the trade deficit widened to \$31.2 billion in March. Imports partially reversed their February decline, rising \$3.4 billion in March. Imports of capital goods, however, remained relatively weak. Exports declined slightly in March, largely reflecting continued weakness in foreign economic conditions.

ECONOMY AT A GLANCE	APR	MAR	FEB	JAN	2001 QTR 1	2000 QTR 4	2000 QTR 3	2000 QTR 2	2000	1999
ECONOMIC ACTIVITY										
REAL GDP (% GROWTH)					2.0	1.0	2.2	5.6	5.0	4.2
INDUSTRIAL PRODUCTION (% GROWTH)	-3.5	-1.2	-4.7	-10.3	-6.5	-0.9	3.5	7.9	5.6	4.2
CAPACITY UTILIZATION (LEVEL, %)	78.5	78.9	79.2	79.7	79.3	81.3	82.4	82.6	82.1	81.2
CIVILIAN UNEMPLOYMENT RATE (LEVEL, %)	4.5	4.3	4.2	4.2	4.2	4.0	4.0	4.0	4.0	4.2
HOUSING STARTS (THOUSANDS)	1609	1586	1623	1666	1625	1539	1505	1586	1575	1647
REAL DISPOSABLE PERSONAL INCOME (% GROWTH)		5.2	2.7	0.2	2.0	0.7	2.6	3.7	2.8	3.2
RETAIL SALES (% GROWTH)	10.2	-4.3	-2.5	17.0	3.9	0.4	5.5	1.7	7.7	9.1
PERSONAL SAVING RATE (LEVEL, %)		-0.8	-1.0	-1.3	-1.0	-0.7	-0.2	0.3	-0.1	2.2
INFLATION & PRODUCTIVITY										
CPI-U INFLATION, ALL ITEMS (% GROWTH)	3.7	1.2	3.7	7.4	4.1	2.9	3.5	3.0	3.4	2.2
CORE CPI-U INFLATION (% GROWTH)	2.4	2.4	3.7	3.7	3.2	2.4	2.5	2.7	2.4	2.1
COMPENSATION PER HOUR (% GROWTH)					4.6	3.5	3.8	4.2	4.3	3.2
OUTPUT PER HOUR (% GROWTH)					-1	2.0	3.0	6.3	4.3	2.6
FINANCIAL MARKETS										
T-BILL RATE, 3-MONTH (LEVEL, %)	3.9	4.4	4.9	5.2	4.8	6.0	6.0	5.7	5.8	4.6
T-NOTE RATE, 10-YEARS (LEVEL, %)	5.1	4.9	5.1	5.2	5.1	5.6	5.9	6.2	6.0	5.6
FEDERAL FUNDS RATE (LEVEL, %)	4.8	5.3	5.5	6.0	5.6	6.5	6.5	6.3	6.2	5.0
DOW JONES INDUSTRIAL AVG (INDEX LEVEL)	10235	10081	10775	10683	10513	10586	10882	10703	10735	10465
SOURCES:	BUREAU OF ECONOMIC ANALYSIS, US DEPARTMENT OF COMMERCE; US BUREAU OF THE CENSUS; BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM; BUREAU OF LABOR STATISTICS, US DEPARTMENT OF LABOR; AND, HAVER ANALYTICS.									
NOTES:	EXCEPT WHERE OTHERWISE NOTED, VALUES IN THE TABLE REPRESENT PERCENTAGE GROWTH MEASURED AT SEASONALLY ADJUSTED ANNUAL RATES. CORE CPI-U INFLATION IS THE PERCENTAGE CHANGE IN THE CPI-U EXCLUDING FOOD AND ENERGY AS REPORTED BY THE BUREAU OF LABOR STATISTICS. COMPENSATION IS THE EMPLOYMENT COST INDEX FOR WORKERS IN PRIVATE INDUSTRY. PRODUCTIVITY IS OUTPUT PER HOUR FOR PRIVATE NONAGRICULTURAL ESTABLISHMENTS. THE 3-MONTH TREASURY BILL RATE THE SECONDARY MARKET RATE.									

Major Economic News Due This Week:

- Durable Goods Orders, Inventories, & Shipments, Advance April [Friday, May 25, 2001]
- Gross Domestic Product, First Quarter 2001, Revised [Friday, May 25, 2001]

Analysts anticipate the Commerce Department will lower their estimate of overall growth in the first quarter, mostly as a result of slower than expected retail sales through March. This release will include our first look at overall corporate profits for the first quarter—the data are expected to reveal a substantial slowing.